

INFORMATION REPORT

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Karlshorst Conference Concerning the Currency Reform

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**SUPPLEMENT TO
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1. On 23 March a preliminary conference took place at the SMA Finance Division in Karlshorst. SMA representative Maletin presided over the meeting. Among the German participants were Prof. Dr. Bruno Gleitze and President Henry Meyer of the Central Administration for Finance; also present were several former directors of the Reichsbank.
2. Maletin declared that no deadline has as yet been determined for the currency reform in the Soviet Zone because such action would depend on the willingness for co-operation of the other Allies. Should negotiations in behalf of all Germany be unsuccessful - and he believes that such will be the case - it will be necessary to initiate a quick reform in the Soviet Zone alone. Berlin will have to be excluded from this scheme unless it is possible to establish for the city a unified administration under Soviet supervision. Up to now, agreement has been reached on the following points:
 - a. In the interest of the people the reform would be on a 10:1 basis.
 - b. A blocked account would be established for all persons who possess cash or an account exceeding five hundred marks. They will be able to draw from this account at some future date. Only amounts up to RM 50 would be exchanged during the transition period. This exchange is estimated to involve one and a half billion marks.
 - c. The following assets are being considered as backing for the new currency:
 - (1) The industrial output, which is expected to amount to half a billion; however, only such production as exceeds reparations commitments could be considered; this in turn will mean that work in the industries will have to be intensified as it will otherwise be impossible to reach the actually quite favorable exchange ratio.

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- (2) Foreign assets, as far as they are in countries with whom friendly relations exist;
- (3) Private property in real estate exceeding 5 ha will also be requisitioned to serve as backing. New farmers will be excepted from this rule for the next three years. Also excepted will be real estate in foreign countries, because different arrangements have been made for such property.
- d. The currency reform will, of course, be successful only if the new bank notes which are being prepared in a similar fashion as in the western zones are issued in a surprise move. After completion of the currency reform the SMA will permit the printing of bank notes in Germany as well, but only under strict Soviet control.
- e. Occupation banknotes originally issued by the Russians will be honored at the same rate; those issued by other occupation forces will be put on blocked accounts.
3. During the discussion, Maletin claimed that the reform would perhaps take place earlier than generally assumed; this, however, depended on the establishment of a zonal administration that bore the semblance of a government; he believed that such action would happen soon by force of a popular plebiscite. It was true, however, that SMA circles were dissatisfied with SED leaders, but he assumed that this would change now.
4. Maletin affirmed that revenue received through the postal and transportation systems as well as taxes would also serve as backing for the currency reform; the states will have to rely on special revenues for their expenditures.
5. No relief is contemplated in regard to occupation costs which will still have to be carried by the German administration. However, measures to be taken by the Economic Commission would render factories and transportation facilities more profitable. At the same time, the rationing of industrial products would help to increase the income. The currency reform would not cause any difficulties but actually increase the living standard of the people. Imports could be paid for to a limited extent through clearing arrangements. This system is not known in Russia as yet and would therefore have to be tried out first.
6. It will be possible to create private capital but strict controls would prevent the accumulation of capital in excess of established limits.
7. The civilian industry will not be expanded; however, Soviet A.G.s will be returned to the States as soon as it has been ascertained that these plants have been stripped of all facilities for war production.

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